Louisiana Agricultural Finance Authority
Department of Agriculture and Forestry
State of Louisiana

Financial Statement Audit
Issued July 1, 2009

LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
POST OFFICE BOX 94397
BATON ROUGE, LOUISIANA 70804-9397

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LOUISIANA LEGISLATIVE AUDITOR
STEVE J. THERIOT, CPA

May 29, 2009

Independent Auditor's Report
on the Financial Statements

LOUISIANA AGRICULTURAL FINANCE AUTHORITY
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA
Baton Rouge, Louisiana

We have audited the accompanying basic financial statements of the Louisiana Agricultural Finance Authority, a component unit of the State of Louisiana, as of and for the year ended June 30, 2008. These financial statements are the responsibility of management of the Louisiana Agricultural Finance Authority. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Louisiana Agricultural Finance Authority as of June 30, 2008, and changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1-K to the basic financial statements, the Louisiana Agricultural Finance Authority implemented Governmental Accounting Standards Board Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, for the year ended June 30, 2008.

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During August and September of 2005, the State of Louisiana suffered considerable damage from two major hurricanes, Katrina and Rita, resulting in the President of the United States declaring Louisiana a major disaster area. Because of the severity of these two separate events and the resulting losses sustained, it is unknown exactly what economic impact recovery will have on state and local governmental operations in Louisiana. While the Louisiana Agricultural Finance Authority did not directly suffer any major effects of these two hurricanes, the long-term effects of these events directly on the Louisiana Agricultural Finance Authority cannot be determined at this time.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 29, 2009, on our consideration of the Louisiana Agricultural Finance Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis on pages 5 through 7 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Respectfully submitted,

Steve J. Theriot, CPA
Legislative Auditor

CLM:CGEW:BQD:THC:dl

LAFA08

Management's discussion and analysis of the Louisiana Agricultural Finance Authority's financial performance presents a narrative overview and analysis of the authority's financial activities for the year ended June 30, 2008. This document focuses on the current year's activities, resulting changes, and currently known facts in comparison with the prior year's information. Please read this information in conjunction with the authority's basic financial statements, which begins on page 9.

FINANCIAL HIGHLIGHTS

- The authority's assets exceeded its liabilities at the close of fiscal year 2008 by $34,719,945, which represents an 8.4% decrease from last fiscal year. The net assets decreased by $3,182,671.

- The authority's operating revenue increased by $2,852,844 (or 37.0%) and the net results from activities decreased by $1,387,958 (or 77.3%).

OVERVIEW OF THE FINANCIAL STATEMENTS

These financial statements consist of two sections: Management's Discussion and Analysis (this section) and the basic financial statements (including the notes to the financial statements).

Basic Financial Statements

The basic financial statements present information for the authority, as a whole, in a format designed to make the statements easier for the reader to understand. The statements in this section include the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows.

The Statement of Net Assets presents the current and long-term portions of assets and liabilities separately. The difference between total assets and total liabilities is net assets and may provide a useful indicator of whether the authority's financial position is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Assets presents information showing how the authority's assets changed as a result of current year operations. Regardless of when cash is affected, all changes in net assets are reported when the underlying transactions occur. As a result, transactions are included that will not affect cash until future fiscal periods.

The Statement of Cash Flows presents information showing how the authority's cash changed as a result of current year operations. The cash flows statement is prepared using the direct method and includes the reconciliation of operating income (loss) to net cash provided (used) by operating activities (indirect method) as required by Governmental Accounting Standards Board Statement No. 34.

FINANCIAL ANALYSIS OF THE AUTHORITY

Statement of Net Assets
As of June 30, 2008 and June 30, 2007
(in thousands)

	June 30, 2008	June 30, 2007 (Restated)
Current and other assets	$82,347	$80,797
Capital assets	55,806	37,597
Total assets	138,153	118,394
Current liabilities	14,623	13,167
Long-term debt outstanding	88,810	66,825
Total liabilities	103,433	79,992
Net assets:		
Invested in capital assets, net of debt	20,518	28,761
Restricted	11,762	104
Unrestricted	2,440	9,037
Total net assets	$34,720	$37,902

Restricted net assets represent those assets that are not available for spending as a result of debt covenants and/or legislative requirements. Conversely, unrestricted net assets are those that do not have any limitations on what these amounts may be used for.

Statement of Revenues, Expenses, and
Changes in Net Assets
For the Years Ended June 30, 2008 and June 30, 2007
(in thousands)

	June 30, 2008	June 30, 2007 (Restated)
Operating revenues	$10,563	$7,710
Operating expenses	(13,865)	(10,303)
Operating loss	(3,302)	(2,593)
Nonoperating revenues, net	120	798
Net decrease in net assets	($3,182)	($1,795)

Operating revenues increased $2,852,844 as a result of increased intergovernmental revenues received from the Louisiana Department of Agriculture from the Licensing and Regulatory Board Fund and the Gaming Control Fund. Revenues received from these funds totaled approximately $4 million and $2 million, respectively. Nonoperating revenues decreased by $678,299. The authority's total revenues increased by $2,174,545 (or 25.0%). The total cost of all programs and services increased by $3,562,503 (or 39.0%).

CAPITAL ASSETS

At the end of 2008, the authority had $55,805,797 invested in a broad range of capital assets, including land, buildings, equipment, and construction-in-progress. This amount represents a net increase (including additions and deductions) of $18,208,970 (or 48.4%) over the last year, as adjusted.

Capital Assets at Year-End
(Net of Depreciation, in thousands)

	2008	2007
Land	$6,633	$6,633
Buildings and improvements	29,459	27,853
Equipment	18,910	1,555
Construction-in-progress	804	1,555
Total	$55,806	$37,596

DEBT ADMINISTRATION

The authority has $97,708,438 of revenue bonds and notes outstanding at June 30, 2008, compared to $74,899,593 last year, an increase of 30.5%. The authority does not have general obligation bonds, and the revenue bonds were private placement bonds that do not require rating.

The authority had no claims and judgments at current year-end or prior year-end.

CONTACTING THE LOUISIANA AGRICULTURAL FINANCE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide residents, taxpayers, customers, and investors and creditors with a general overview of the Louisiana Agricultural Finance Authority's finances and to show the authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Corinne Brousseau, Louisiana Department of Agriculture and Forestry, Post Office Box 631, Baton Rouge, Louisiana 70821-0631.

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LOUISIANA AGRICULTURAL FINANCE AUTHORITY
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA
PROPRIETARY FUND - ENTERPRISE FUND

Statement of Net Assets, June 30, 2008

ASSETS	
Current assets:	
Cash and cash equivalents (note 2)	$205,001
Accounts receivable (net)	117,527
Due from primary government (note 10)	5,898,375
Interest receivable	100,000
Unamortized debt issuance cost	80,972
Total current assets	6,401,875
Noncurrent assets:	
Restricted assets - cash (note 2)	11,995,071
Interest receivable	3,321,578
Notes receivable (note 3)	60,000,000
Unamortized debt issue costs	627,514
Property, plant, and equipment (net of depreciation) (note 4)	55,805,797
Other noncurrent assets	900
Total noncurrent assets	131,750,860
TOTAL ASSETS	138,152,735
LIABILITIES	
Current liabilities:	
Accounts payable	994,151
Liabilities payable from restricted assets	208,229
Due to other funds	59,430
Due to federal government	46
Deferred revenue	31,000
Bonds payable (note 6)	2,581,710
Notes payable (note 6)	6,400,000

(Continued)

The accompanying notes are an integral part of this statement.

LOUISIANA AGRICULTURAL FINANCE AUTHORITY
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA
PROPRIETARY FUND - ENTERPRISE FUND
Statement of Net Assets, June 30, 2008

LIABILITIES (CONT.)	
Current liabilities: (Cont.)	
Accrued interest on notes payable	$262,526
Accrued interest on bonds payable	3,663,398
Obligations under capital leases (note 5)	112,424
Other current liabilities	310,226
Total current liabilities	14,623,140
Noncurrent liabilities:	
Bonds payable (note 6)	88,726,728
Obligations under capital leases (note 5)	82,922
Total noncurrent liabilities	88,809,650
TOTAL LIABILITIES	103,432,790
NET ASSETS	
Invested in capital assets, net of related debt	20,517,818
Restricted for capital projects	11,358,981
Restricted for debt service	88,027
Restricted for other specific purposes	315,342
Unrestricted	2,439,777
TOTAL NET ASSETS	$34,719,945

(Concluded)

The accompanying notes are an integral part of this statement.

LOUISIANA AGRICULTURAL FINANCE AUTHORITY
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA
PROPRIETARY FUND - ENTERPRISE FUND

Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2008

OPERATING REVENUES:	
Rental income pledged as security for revenue bonds	$1,708,273
Intergovernmental (note 12)	6,916,016
Use of money and property	1,914,174
Other	24,813
Total operating revenues	10,563,276
OPERATING EXPENSES:	
Contractual services	155,024
Operating services	1,102,362
Supplies	957,821
Professional services	170,992
Amortization of bond issuance costs (note 6)	68,780
Interest expense	5,672,215
Depreciation expense	5,737,951
Total operating expenses	13,865,145
OPERATING LOSS	(3,301,869)
NONOPERATING REVENUES (Expenses)	
Capital contributions	8,005
Gain on disposal of fixed assets	205,551
Nonoperating expense - federal expenses	(94,358)
Net nonoperating revenues	119,198
Change in net assets	(3,182,671)
NET ASSETS - BEGINNING OF YEAR, Restated (note 9)	37,902,616
TOTAL NET ASSETS AT END OF YEAR	$34,719,945

The accompanying notes are an integral part of this statement.

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LOUISIANA AGRICULTURAL FINANCE AUTHORITY
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA
PROPRIETARY FUND - ENTERPRISE FUND

Statement of Cash Flows
For the Year Ended June 30, 2008

Cash flows from operating activities:	
Cash received from customers	$8,275,408
Cash payments to suppliers for goods and services	(7,375,194)
Net cash provided by operating activities	900,214
Cash flows from noncapital financing activities:	
Principal paid on notes payable	(7,891,155)
Receipts from Louisiana Department of Agriculture for:	
Boll Weevil Eradication Program	7,891,155
Loans	2,124,177
Other	119,650
Net cash provided by noncapital financing activities	2,243,827
Cash flows from capital and related financing activities:	
Proceeds from issuance of bonds	31,000,000
Principal paid on bonds	(300,000)
Acquisition/construction of capital assets	(23,829,939)
Other	(169,412)
Net cash provided by capital and related financing activities	6,700,649
Net increase in cash and cash equivalents	9,844,690
Cash and cash equivalents at beginning of year	2,355,382
Cash and cash equivalents at end of year	$12,200,072

(Continued)

The accompanying notes are an integral part of this statement.

LOUISIANA AGRICULTURAL FINANCE AUTHORITY
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA
PROPRIETARY FUND - ENTERPRISE FUND
Statement of Cash Flows, 2008

Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating loss	($3,301,869)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization expense	5,806,731
Changes in assets and liabilities:	
Decrease in receivables	46,608
(Increase) in due from other funds	(542,107)
(Increase) in other assets	(1,651,404)
Increase in accounts payable	671,246
(Decrease) in due to other funds	(94,356)
Increase in deferred revenue	29,500
(Decrease) in other liabilities	(64,135)
Total adjustments	4,202,083
Net cash provided by operating activities	$900,214
Schedule of Noncash Investing, Capital, and Financing Activities:	
Borrowing under capital lease	$66,139
Contributions of fixed assets	8,005
Disposal of fixed assets	1,990

(Concluded)

The accompanying notes are an integral part of this statement.

INTRODUCTION

The Louisiana Agricultural Finance Authority (authority) is a component unit of the State of Louisiana created under the provisions of Louisiana Revised Statutes (R.S.) 3:261-284, within the Department of Agriculture and Forestry, State of Louisiana, and is domiciled in East Baton Rouge Parish. The authority consists of nine members, one of whom is the commissioner of the Department of Agriculture and Forestry and eight members appointed by the governor. The members may receive a per diem not to exceed $40 per meeting, plus mileage expenses. The authority has no employees. Employees of the Department of Agriculture and Forestry perform the administrative and accounting functions of the authority.

The authority was established to issue bonds to provide financing for agricultural loans through the purchase or guarantee of existing loans or negotiation of new loans and to supervise and use public employees, equipment, and material in carrying out public work. The bonds are limited special obligations of the authority and do not constitute a general, special, or moral obligation of the State of Louisiana. In addition, the authority can issue revenue bonds for the purpose of acquiring, constructing, renovating, and equipping an office building and connected related facilities for use by the Department of Agriculture and Forestry in connection with the promotion and assistance of agriculture and forestry within the state. The revenue bonds are limited obligations of the authority and do not constitute a debt of the State of Louisiana. Upon termination of the authority by law, R.S. 3:283 requires that all rights, money, assets, and revenues in excess of obligations be deposited in the state General Fund.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The accompanying basic financial statements have been prepared on the full accrual basis in accordance with accounting principles generally accepted in the United States of America as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting principles and financial reporting standards. These principles are found in the *Codification of Governmental Accounting and Financial Reporting Standards*, published by the GASB. The authority applies all GASB pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. In accordance with policies established by the Division of Administration, the authority has elected to follow GASB pronouncements issued after November 30, 1989, rather than FASB pronouncements.

B. REPORTING ENTITY

GASB Codification Section 2100 has defined the governmental reporting entity to be the State of Louisiana. The authority is considered a component unit of the State of Louisiana because the state exercises oversight responsibility in that the governor appoints eight of the nine authority members and is able to impose his will on the authority. The accompanying financial statements present only the activity of the authority. Annually, the State of Louisiana issues basic financial statements that include the activity contained in the accompanying financial statements.

C. FUND ACCOUNTING

All activities of the authority are accounted for within a single proprietary (enterprise) fund. Proprietary funds are used to account for operations that are (a) financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the cost of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

D. BASIS OF ACCOUNTING

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. The transactions of the authority are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operations are included on the Statement of Net Assets.

Revenues are recognized in the accounting period when they are earned and expenses are recognized when the related liability is incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and/or producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal operating revenue of the authority is rental fees for office space and intergovernmental revenue from the Department of Agriculture and Forestry. Operating expenses include administrative expenses, interest, and depreciation on capital assets.

E. BUDGET PRACTICES

The authority does not adopt a formal budget on a fiscal basis.

F. CASH

Cash represents amounts in demand deposits and amounts on deposit with the fiscal agent bank. Under state law, the authority may deposit funds within a fiscal agent bank organized under the laws of the State of Louisiana, the laws of any other state in the Union, or the laws of the United States. Furthermore, the authority may invest in time certificates of deposit of state banks organized under the laws of the State of Louisiana, national banks having their principal offices in Louisiana, in savings accounts or shares of savings and loan associations and savings banks, and in share accounts and share certificate accounts of federally or state chartered credit unions.

G. CAPITAL ASSETS

Property and equipment are valued at historical cost except for donated capital assets, which are recorded at their estimated value at the time of donation. Equipment includes all items valued at or above $5,000. Depreciation of all exhaustible capital assets of the authority is charged as an expense against operations. Depreciation is computed using the straight-line method based on the estimated useful lives as follows:

	Years
Buildings and improvements	40
Equipment	5 or 10

H. COMPENSATED ABSENCES, PENSION BENEFITS, AND POSTRETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

The authority has no employees. Department of Agriculture and Forestry employees perform the administrative and accounting functions for the authority. Therefore, no compensated absences, pension benefits, or postretirement benefits are provided by the authority.

I. LONG-TERM OBLIGATIONS

Bond issuance costs are reported and amortized over the life of the bonds. Capital leases are reported at the present value of net minimum lease payments.

J. NET ASSETS

Net assets comprise the various net earnings from operations, nonoperating revenues, expenses, and contributions of capital. Net assets are classified in the following three components:

Invested in capital assets, net of related debt consists of all capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted net assets consist of net assets subject to external constraints placed on net asset use by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of all other net assets that are not included in the other categories previously mentioned.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the authority's policy is to first apply the expense toward restricted resources, then toward unrestricted resources.

K. ADOPTION OF NEW ACCOUNTING PRINCIPLES

For the year ended June 30, 2008, the authority implemented GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, which requires specific relevant disclosures be made about the unavailability of future revenues that have been pledged or sold and is addressed in note 13 to the financial statements.

2. CASH

For reporting purposes, cash represents amounts in interest-bearing demand deposits and amounts on deposit with the fiscal agent bank. At June 30, 2008, the authority has cash deposits (book balances) of $12,200,072 as follows:

Interest-bearing demand deposits	$3,725,239
Cash with fiscal agent	8,474,833
Total	$12,200,072

Custodial credit risk is the risk that in the event of a bank failure, the authority's deposits may not be recovered. Under state law, the authority's deposits must be secured by federal deposit insurance or similar federal security or the pledge of securities owned by the fiscal agent bank. The fair market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These securities are held in the name of the authority or the pledging bank by a holding or custodial bank that is mutually acceptable to both parties.

The following is a breakdown by banking institution and amount of the collected bank balances:

Banking Instituion	Program or Type	Amount
Capital One - Demand Account	Operating Account	$3,869,016
Hancock Bank - Fiscal Agent	Investment Account	8,474,833
Total		$12,343,849

3. NOTES RECEIVABLE

At June 30, 2006, the authority recorded a capital lease totaling $60 million for the lease of the Lacassine Syrup mill (mill) to the Lake Charles Cane-Lacassine Mill, LLC (LLC). The LLC leased the mill and certain equipment from the authority for $60 million plus annual interest of 3%. Included in the agreement was an operating lease for land on which the mill was constructed. The term of the lease agreement was from June 29, 2006, to December 31, 2051. The authority reported the transaction as a capital lease at June 30, 2006.

The authority granted the LLC an option to purchase the mill at any time during the term of the agreement. On November 2, 2006, the LLC exercised the option to purchase the mill for $60 million plus accrued interest from June 29, 2006, through November 2, 2006, and the authority financed the purchase with the issuance of a $60 million promissory note bearing interest of 3% per year. The note's terms are identical to the June 29, 2006, lease's terms. In addition, the authority amended the land portion of the operating lease to include a 55-year second term. Beginning with the second term, land lease payments will be $500 per acre per year and will increase to $2,500 per acre per year following any year in which the mill is idle for more than one-half of the sugarcane harvest season for reasons controlled by the LLC.

4. CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets and related depreciation for the fiscal year ended June 30, 2008, follows:

	Beginning Balance July 1, 2007	Prior Period Adjustments	Restated Balance July 1, 2007	Additions	Transfers	Deletions	Ending Balance June 30, 2008
Capital assets not being depreciated:							
Land	$6,632,775		$6,632,775				$6,632,775
Construction-in-progress	1,555,325	$11	1,555,336	$784,371	($1,535,567)		804,140
Total capital assets not being depreciated	8,188,100	11	8,188,111	784,371	(1,535,567)	NONE	7,436,915
Capital assets being depreciated:							
Buildings	30,569,573		30,569,573	999,820	1,535,567	($32)	33,104,928
Land improvements	7,084,600		7,084,600	304,144			7,388,744
Equipment	6,208,682	738	6,209,420	22,207,432		(515,826)	27,901,026
Total capital assets being depreciated	43,862,855	738	43,863,593	23,511,396	1,535,567	(515,858)	68,394,698
Less accumulated depreciation for:							
Buildings	(8,329,193)		(8,329,193)	(864,132)			(9,193,325)
Land improvements	(1,471,367)		(1,471,367)	(370,469)			(1,841,836)
Equipment	(4,653,568)		(4,653,568)	(4,503,350)		166,263	(8,990,655)
Total accumulated depreciation	(14,454,128)	NONE	(14,454,128)	(5,737,951)	NONE	166,263	(20,025,816)
Total capital assets (net)	$37,596,827	$749	$37,597,576	$18,557,816	NONE	($349,595)	$55,805,797

Transfers from construction-in-progress to buildings totaling $1,535,567 consist of construction costs for the Jena Office Building, Oberlin Fuel Canopy, Oberlin Office Building, and Zachary Building. Of equipment additions totaling $22,207,432, the amount of $20,262,199 represents the equipment purchase of 77 bulldozers and 153 trucks by LAFA.

Information relating to construction-in-progress follows:

Project	Costs to Date	Estimated Completion Date	Estimated Cost to Complete
Baton Rouge fence	$711	3/13/2009	$20,000
Haughton fence	4,421	3/13/2009	100,000
Woodworth office building	695,907	12/31/2008	800,000
Natchitoches project	3,159	12/1/2009	600,000
Chopin Building	99,941	On Hold	NONE
Total	$804,139		$1,520,000

5. LEASES

A. Capital Leases

The authority has entered into lease agreements for financing the acquisition of equipment. Capital leases are recognized in the accompanying financial statements. The amounts to be accrued for capital leases and the disclosures required for capital and operating leases by the National Council on Governmental Accounting Statement No. 5, as adopted by the GASB, and FASB 13 are reported on the following schedules:

Nature of Lease	Date of Lease	Last Payment Date	Remaining Interest to End of Lease	Remaining Principal to End of Lease
Equipment	9/12/2007	3/15/2010	$9,308	$195,346

The assets acquired through capital leases are as follows:

Equipment	$959,219
Less - accumulated depreciation	(544,254)
Total	$414,965

The following is a schedule by years of future minimum lease payments under capital leases, together with the present value of the net minimum lease payments as of June 30, 2008:

Year Ending June 30,	
2009	$120,000
2010	84,654
Total minimum lease payments	204,654
Less - amounts representing executory costs	NONE
Net minimum lease payments	204,654
Less - amounts representing interest	(9,308)
Present value of net minimum lease payments	$195,346

B. Operating Leases

The total payments for operating leases, consisting of land and office space leases, during the fiscal year 2007-2008 amounted to $40,553. The following is a schedule by years of future minimum annual rental payments required under operating leases:

Year ending June 30,	Office Space	Land	Total Minimum Payments Required
2009	$16,047	$3,459	$19,506
2010		2,259	2,259
2011		2,259	2,259
2012		2,259	2,259
2013		720	720
2014-2018		2,160	2,160
Total	$16,047	$13,116	$29,163

C. Lessor - Operating Leases

When a lease agreement does not satisfy at least one of the four criteria (common to both lessee and lessor accounting) and both of the criteria for a lessor (collectibility and no uncertain reimbursable costs), the lease is classified as an operating lease. In an operating lease, there is no simulated sale, and the lessor simply records rent revenues as they become due. The following property is on lease or held for leasing as of June 30, 2008:

	Cost	Accumulated Depreciation	Carrying Amount
Buildings	$13,489,619	($4,295,463)	$9,194,156
Land	475,734		475,734
Total carrying amount of property	$13,965,353	($4,295,463)	$9,669,890

The following is a schedule by years of minimum future rentals on noncancelable operating leases as of June 30, 2008:

Year Ending June 30,	Amount
2009	$2,009,606
2010	1,719,849
2011	1,719,849
2012	1,719,849
2013	1,719,849
2014-2018	8,156,082
2019-2023	1,258,240
2024-2028	460,240
2029-2033	460,240
2034-2038	460,240
2039-2043	460,240
2044-2048	460,240
2049-2053	214,779
Total	$20,819,303

No contingent rentals were received from operating leases for the fiscal year ended June 30, 2008.

6. LONG-TERM LIABILITIES

The following is a summary of long-term debt transactions of the authority for the year ended June 30, 2008:

	Balance June 30, 2007	Additions	Reductions	Balance June 30, 2008	Amounts Due Within One Year
Bonds, notes, and capital leases payable:					
Notes payable	$14,291,155		($7,891,155)	$6,400,000	$6,400,000
Bonds payable	60,608,438	$31,000,000	(300,000)	91,308,438	2,581,710
Capital lease obligations	227,367	66,139	(98,160)	195,346	112,424
Total	$75,126,960	$31,066,139	($8,289,315)	$97,903,784	$9,094,134

Notes Payable

On June 30, 2008, the authority had Series 2006B notes outstanding, totaling $6,400,000. The proceeds from the issuance of the notes are to be used to support the Boll Weevil Eradication Program. The notes are to be paid from the avails of net slot machine proceeds collected pursuant to R.S. 27:292(B)(4). The interest rate on the notes is variable, equal to the 30-day London InterBank Offered Rate (LIBOR) plus 75 basis points for the Series 2006 notes and 30-day LIBOR plus 125 basis points for the Series 2006B notes. LIBOR is the rate at which deposits of United States dollars are offered in the London interbank market for certain set interest periods. Interest will be calculated on the basis of a 360-day year based on actual days elapsed.

The annual requirements to amortize all notes outstanding for the authority at June 30, 2008, including interest outstanding of $313,620, are as follows:

Fiscal year ending	Principal	Interest	Total
2009	$6,400,000	$313,620	$6,713,620

Bonds Payable

Debt issued by the authority for which the authority and/or the government have responsibility for repayment in the event of default is recorded in the financial statements and is comprised of the following issues:

Issued for	Date Issued	Original Issue	Outstanding June 30, 2007	Issued (Redeemed)	Outstanding June 30, 2008	Maturity Date	Interest Rates
Series 2004 -							
Lacassine Syrup Plant	3/2/2004	$45,000,000	$45,000,000		$45,000,000	9/15/2015	variable
Series 2006:							
Building projects	3/30/2006	3,804,219	3,804,219		3,804,219	9/15/2012	variable
Building projects	3/30/2006	3,804,219	3,804,219		3,804,219	9/15/2012	variable
Series 2006 B	4/27/2006	2,000,000	2,000,000		2,000,000	9/15/2012	variable
Series 2007 -							
Building projects and equipment purchases	3/26/2007	6,000,000	6,000,000	($300,000)	5,700,000	9/15/2026	variable
Series 2007 -							
Multi Buildings and equipment purchases	10/1/2007	31,000,000		31,000,000	31,000,000	9/15/2017	fixed
Total		$91,608,438	$60,608,438	$30,700,000	$91,308,438		

Debt service requirements to maturity are as follows:

Fiscal year ending	Interest Rate Swap	Principal	Interest	Total
2009	$1,523,731	$2,581,710	$3,430,385	$7,535,826
2010	325,348	9,431,537	3,350,787	13,107,672
2011		10,286,697	3,084,189	13,370,886
2012		10,783,889	2,794,246	13,578,135
2013		11,311,731	2,490,729	13,802,460
2014-2018		44,212,874	6,445,141	50,658,015
2019-2023		1,500,000	563,850	2,063,850
2024-2027		1,200,000	161,100	1,361,100
Total	$1,849,079	$91,308,438	$22,320,427	$115,477,944

On October 1, 2007, the authority issued $31,000,000 in Series 2007 revenue bonds. The proceeds will be used for the purpose of (1) acquiring and renovating a facility in Ascension Parish for use for agricultural purposes; (2) acquiring, demolishing, constructing, and installing a building for use as offices of the Louisiana Department of Agriculture and Forestry (LDAF) and related uses; (3) for dozers, trucks, and other equipment to be used by LDAF for firefighting and other agricultural purposes. The bonds are secured by revenues from a lease agreement between the authority and LDAF. Interest is fixed at 5.25% for the term of the bonds and calculated on the basis of a 360-day year consisting of twelve 30-day months.

Unamortized bond issuance costs associated with the Series 2007 revenue bonds issued October 1, 2007, include legal and other fees. The original issuance costs were $366,150. These costs will be amortized over the life of the bonds using the straight-line method. The balance of unamortized bond issuance costs at June 30, 2008, is $341,740. The bond issuance costs amortized in fiscal year 2007-2008 were $24,410.

The Series 2007 revenue bonds in the amount of $6,000,000 issued on March 26, 2007, are secured by revenue from a lease agreement between the authority and LDAF. The initial interest rate on the bonds is fixed at 5.37% until September 15, 2012, and then will be adjusted on September 15, 2012; September 15, 2017; and September 15, 2022, to 65% of the then applicable swap rate plus 198 basis points.

Unamortized bond issuance costs associated with the Series 2007 revenue bonds issued March 26, 2007, include legal and other fees. The original issuance costs were $58,000. These costs will be amortized over the life of the bonds using the straight-line method. The balance of unamortized bond issuance costs at June 30, 2008, is $54,417. The bond issuance costs amortized in fiscal year 2007-2008 were $2,839.

The Series 2006 and Series 2006B revenue bonds are secured by income and revenues in the Feed, Fertilizer, and Pesticide Funds (License and Regulatory Boards Funds Account). The interest rate on the bonds is variable and is calculated by multiplying LIBOR by 65% and adding 119 basis points. Interest is calculated on the basis of a 360-day year based on actual days elapsed.

Unamortized bond issuance costs associated with the Series 2006 and 2006B revenue bonds include legal and other fees. The original issuance costs were $11,317. These costs will be amortized over the life of the bonds using the straight-line method. The balance of unamortized bond issuance costs at June 30, 2008, is $7,372. The bond issuance costs amortized in fiscal year 2007-2008 were $1,754.

The Series 2004 Lacassine Syrup Plant revenue bonds totaling $45,000,000 are secured by the net revenues from the operation of the facilities and the avails of the net slot machine proceeds described in R.S. 27:392(B)(4). In addition, LAFA obtained a non-revocable, direct-pay letter of credit to provide credit support on the bonds. The bonds may be fixed per annum (term) or fluctuating per annum (weekly) rate bonds bearing interest at a rate not exceeding 12% per annum. Interest at the weekly rate and interest at the term rate for any period of one year or less is computed on the basis of a 365- or 366-day year. Interest at the term rate for any period of more than one year is computed on the basis of a 360-day year with 12 months of 30 days each.

Unamortized bond issuance costs associated with the Series 2004 revenue bonds include legal and other fees. The original issuance costs were $307,326 plus underwriter's fees totaling $170,000. These costs will be amortized over the life of the bonds using the straight-line method. The balance of unamortized bond issuance costs at June 30, 2008, is $196,347. The bond issuance costs amortized in fiscal year 2007-2008 were $39,777. The balance of unamortized underwriter's fees at June 30, 2008, is $108,611. The underwriter's fees amortized in fiscal year 2007-2008 were $14,167.

Capital Lease Obligations

Capital lease obligations at June 30, 2008, of $195,346 are detailed in note 5-A.

7. INTEREST RATE SWAP AGREEMENT

The authority has entered into an interest rate swap agreement with AmSouth Bank to reduce the impact of changes in interest rates on its Series 2004 Variable Rate Demand Revenue Bonds. As of June 30, 2008, $45,000,000 in outstanding bonds was recorded as a liability in the financial statements.

Objective of the interest rate swap: As a means of lowering its borrowing costs, the authority entered into the interest rate swap agreement, the intention of which was to effectively change the authority's variable interest rate on the bonds to a fixed rate of 5.87% for the duration of the agreement.

Terms: The Master Swap Agreement, dated July 14, 2006, and effective July 18, 2006, has a notional amount of $45,000,000 and terminates on September 15, 2009. The swap's notional amount matches the principal amount of the variable-rate bonds. Under the swap, the authority pays AmSouth Bank an annual interest payment computed at a fixed-rate of 5.87% and receives a variable interest payment computed monthly based on a one-month LIBOR weighted-average.

Fair Value: The fair value of the swap agreement as of June 30, 2008, is a negative $3,434,069, which is not reported in the financial statements. The fair value was estimated using proprietary models of expected cash flows based upon the closing mid-market market rate/price environment on June 29, 2008.

Credit Risk: Credit risk is the risk that the counterparty will not fulfill its obligations. At June 30, 2008, LAFA was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap becomes positive, LAFA would be exposed to credit risk in the amount of the swap's fair value.

Basis Risk: Basis risk is the risk that arises when variable interest rates on a swap and the associated debt are based on different indexes. The interest rates for both the swap and the bonds are based on LIBOR; therefore, LAFA is not subject to basis risk.

Termination Risk: The authority or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. The swap agreement may be terminated if either party fails to make payment, when due, under the swap agreement; breaches the agreement; made or repeated or deemed to have made or repeated a misrepresentation; bankrupts; or merges without assumption or commits an illegality. If the swap is terminated, the variable-rate bond would no longer carry a synthetic interest rate. Also, if at the time of termination the swap has a negative fair value, LAFA would be liable to the counterparty for a payment equal to the swap's fair value.

Rollover Risk: Rollover risk is the risk that the swap does not extend to the maturity of the associated debt. The authority is exposed to rollover risk because the swap terminates prior to the maturity of the associated bond. When the swap terminates, the authority will not realize the synthetic rate offered by the swap on the bonds. The swap terminates on September 15, 2009, and the bonds mature on September 15, 2015.

8. CONDUIT DEBT OBLIGATIONS

In August 1995, the GASB issued Interpretation No. 2 (Disclosure of Conduit Debt Obligations). Governmental entities may enter into arrangements whereby a nongovernmental entity is able to finance the acquisition of facilities by issuing conduit debt obligations, which the GASB describes as follows:

> Certain limited-obligation revenue bonds, certificates of participation, or similar debt instruments issued by a state or local governmental entity for the express purpose of providing capital financing for a specific third party that is not part of the issuer's financial reporting entity.

The GASB concluded that conduit debt does not create a liability and, therefore, does not have to be presented on the governmental entity's financial statements.

The authority is authorized by R.S. 3:266 to issue bonds to provide financing for agricultural loans through the purchase or guarantee of existing loans or negotiation on new loans. During 1986, the authority issued two bond issues (1986A I and 1986A II) totaling $300,000,000 that are currently in default.

Debt issued by the authority for which the authority and the government have no responsibility for repayment is not recorded in the accompanying financial statements and is comprised of the following issues:

Issued for	Interest Rates	Date Issued	Maturity Dates	Authorized and Issued	Retired to Date	Outstanding June 30, 2008
Agricultural Loan Program:						
	8.25%	1986A I	various	$150,000,000	$107,938,898	$42,061,102
	8.80%	1986A II	various	150,000,000	105,653,156	44,346,844
Total				$300,000,000	$213,592,054	$86,407,946

Both of the 1986 bond issues were payable solely from the proceeds of two Guaranteed Investment Contracts with Executive Life Insurance Company and from certain agricultural loans permitted under the financing program. The commissioner of insurance from the state of California placed Executive Life Insurance Company into conservatorship on April 11, 1991. Both of the 1986 series bonds subsequently defaulted.

Trustees of the two 1986 series defaulted bonds, referred to as LAFA I and LAFA II, have received distributions on behalf of bondholders under a modified plan of rehabilitation for Executive Life Insurance Company. Distributions through the fiscal year ended June 30, 2008, under the modified plan, including interest, total $154,523,387 for the LAFA I bonds and $154,226,287 for the LAFA II bonds. These distributions include court-ordered trust administration costs of $4,693,794 for the LAFA I bonds and $4,693,525 for the LAFA II bonds. Principal and interest of $107,938,898 and $41,890,695, respectively, have been paid for the LAFA I series bonds, and principal and interest of $105,653,156 and $43,879,606, respectively, have been paid for the LAFA II series bonds. Under the plan, distributions can continue until the conservator declares that they are complete or the modified plan has expired.

9. NET ASSETS RESTATED

The beginning net assets as reflected on Statement B have been restated to reflect the following adjustments:

Net assets, June 30, 2007	$38,402,308
Due from other funds - Boll Weevil Eradication	(331,261)
Interest income	(45,761)
Capital assets	749
Other miscellaneous errors	(123,419)
Net assets at June 30, 2007, as restated	$37,902,616

10. DUE FROM PRIMARY GOVERNMENT

At June 30, 2008, the authority has amounts due to/from the primary government for the following:

Source	Total
Department of Agriculture and Forestry:	
Boll Weevil Eradication Program:	
Repayment of loans*	$3,344,101
Rental payment	28,800
Repayment of bond proceeds	1,750,683
Rental payment	24,250
Cash discount on trucks/dozers	241,448
Other - including snap-on tools	509,093
Total due from primary government	$5,898,375

*The Department of Agriculture and Forestry funds the loan repayments from the net slot machine proceeds collected pursuant to R.S. 27:392(B)(4).

11. RISK MANAGEMENT

The authority is exposed to various risks of losses related to general liability: theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The authority is a party to various legal proceedings incidental to its business but is not involved in litigation seeking damages. In the opinion of management, all such matters are adequately covered by insurance purchased from the Office of Risk Management and are not expected to have a material effect on the financial statements.

The authority entered into a contract with Arkel Sugar Incorporated (Arkel) to provide engineering services related to the Lacassine Syrup Mill (mill). Arkel has filed a lawsuit against the authority contending that certain design services performed by Arkel were not in the scope of work under the contract and that Arkel should be paid an additional $609,573 for the services. The authority contends that the design work was within the scope of the contract and that the contract had a cap amount within which Arkel agreed to do all necessary work and is therefore not entitled to any additional compensation. There is a reasonable possibility of an unfavorable outcome. The estimated potential loss is $450,000.

During the past three years, there were no claims against the authority that exceeded insurance coverage. During the year ended June 30, 2008, a total of $134,035 was expended for legal services.

On November 3, 2006, the Lake Charles Cane-Lacassine Mill, LLC (LLC) received a $4,000,000 line of credit from Jeff Davis Bank and Trust Company at a fixed rate of 7% per annum for the purposes of obtaining operating capital and making modifications to the mill. Pursuant to R.S. 3:262 through 3:283, the authority guaranteed the loan. The loan will be considered funded at the end of the first year. The loan will then be converted to a five-year loan, with payments of principal and accrued interest due in installments every 12 months thereafter.

If the LLC fails to pay an installment, the authority will pay Jeff Davis Bank the amount of the installment not paid by the LLC no later than 10 days from the date that the installment was due. If the authority fails to pay an installment on or before the date set forth in the agreement, Jeff Davis Bank may declare the loan to be in default and place the mill and the authority in default, after which time the authority will be liable for all amounts due under the loan. The term of the agreement and the authority's guarantee will be effective until the loan is paid in full or 10 years from the effective date of the agreement, whichever occurs first.

12. INTERGOVERNMENTAL REVENUES

During the fiscal year ended June 30, 2008, the authority received intergovernmental revenues from the primary government as follows:

Source	Amount
Department of Agriculture and Forestry:	
Gaming Control Fund	$4,108,845
Licensing and Regulatory Board	1,995,324
Other:	
Chopin cooperative endeavor	35,000
Greenhouse project	30,000
Lacassine Road	140,750
Repayment for snap-on tools	499,771
Zachary project	100,000
Miscellaneous	6,326
Total	$6,916,016

13. REVENUE USED AS SECURITY FOR REVENUE BONDS

Pledged revenues are specific revenues that have been formally committed to directly collateralize or secure debt of the pledging government. Pledged revenues must be disclosed for each period in which the secured debt remains outstanding and for each secured debt issued.

Specific pledged revenues are the net slot machine proceeds in R.S. 27:392(B)(4); the income and revenues in the Fertilizer Fund pursuant to R.S. 3:1311 - 1318; the income and revenues in the Feed Commission Fund pursuant to R.S. 3:1892 - 1907; the income and revenues in the Pesticide Fund pursuant to R.S. 3:3201 - 3257; and rental and lease income of the authority.

The debt secured by the pledge totals $97,708,438. The approximate remaining amount of the pledge is $120,342,485 at June 30, 2008, representing $97,708,438 in principal and $22,634,047 in interest. The term of the commitment was 23 years beginning in March 2004 and ending in September 2026. The dedicated revenues are pledged 100% annually up to the current amount due for principal and interest. For fiscal year 2008, the pledged revenues recognized totaled $13,435,324--$8,191,155 in principal and $5,244,169 in interest.

14. SUBSEQUENT EVENTS

With LAFA's November 2, 2006, sale of the Lacassine Syrup Mill (mill) to the Lake Charles-Cane, LLC (LLC), the mill agreed to pay $2,571 per month rental of an office building and five acres of land on which the building sits and $29,500 per year for a user fee for maintenance. In addition, the mill is required to pay a nonoperating penalty to LAFA of $2,500 per acre (for 59 acres leased to the LLC) for any year in which the mill is idle for at least one-half the sugarcane harvesting season for reasons controlled by the LLC.

In its April 16, 2009, meeting, the authority agreed to give the LLC waivers of lease payments for nine months, totaling $23,141; one year's user fee for maintenance totaling $29,500, during which time the LLC will perform the necessary maintenance; and the nonoperating penalty totaling $147,500. The amounts due to, and waived by, LAFA totaled $200,141. In addition, the authority approved the above concessions contingent on the LLC's timely payment on all loans guaranteed by the authority.

In its May 7, 2009, meeting, the authority approved a request from Jeff Davis Bank (bank), which loaned the LLC $4 million with the authority's guarantee, for the authority's consent to a request from the LLC to extend its loan payments to the bank. The LLC requested two 90-day extensions on November 4, 2008, and February 16, 2009, for its loan installment payments due in November 2008. The bank stated that without the authority's consent, it would declare the LLC in default on the loan, at which time the authority, as guarantor, would be responsible for the loan payments to the bank.

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OTHER REPORT REQUIRED BY

GOVERNMENT AUDITING STANDARDS

The following pages contain our report on internal control over financial reporting and on compliance with laws and other matters as required by *Government Auditing Standards*, issued by the Comptroller General of the United States. This report is based solely on the audit of the financial statements and includes, where appropriate, any significant deficiencies and/or material weaknesses in internal control or compliance and other matters that would be material to the presented financial statements.

LOUISIANA LEGISLATIVE AUDITOR
STEVE J. THERIOT, CPA

May 29, 2009

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

LOUISIANA AGRICULTURAL FINANCE AUTHORITY
DEPARTMENT OF AGRICULTURE AND FORESTRY
STATE OF LOUISIANA
Baton Rouge, Louisiana

We have audited the basic financial statements of the Louisiana Agricultural Finance Authority (authority), a component unit of the State of Louisiana, as of and for the year ended June 30, 2008, and have issued our report thereon dated May 29, 2009. Our report was modified for an explanatory paragraph for the implementation of new reporting standards and to include an emphasis of a matter regarding the impact of hurricanes Katrina and Rita. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the authority's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed in the following paragraph, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control over financial reporting.

Inaccurate and Incomplete Annual Fiscal Report

For the third consecutive year, the Louisiana Agricultural Finance Authority (LAFA) did not submit an accurate and complete Annual Fiscal Report (AFR) to the Division of Administration. As authorized by Louisiana Revised Statute (R.S.) 39:79, the commissioner of administration through the Division of Administration's Office of Statewide Accounting and Reporting Policy (OSRAP) prescribes the content and format for the preparation of each agency AFR, which is then used in the compilation of the state's Comprehensive Annual Financial Report (CAFR) and LAFA's separately issued financial statements in accordance with accounting principles generally accepted in the United States of America. Good internal control includes establishing a process to ensure that these financial statements are accurately prepared and reviewed. However, LAFA's AFR for the fiscal year ended June 30, 2008, submitted to OSRAP and the Louisiana Legislative Auditor (LLA) on August 25, 2008, included the following errors and omissions:

LAFA incorrectly reported accrued interest and interest expense on bonds, net assets unrestricted, and net assets restricted for capital projects, and restricted for debt service resulting in the following errors on its Statement of Net Assets (SNA) and on its Statement of Revenues, Expenses, and Changes in Net Assets (SRECNA):

SNA:

- Liabilities were understated by $529,100.
- Net assets - unrestricted were overstated by $11,447,008.
- Net assets - restricted for capital projects were understated by $11,358,981.
- Net assets - restricted for debt service were understated by $88,027.

SRECNA:

- Expenses were understated by $529,100.

Management has not ensured that LAFA's AFR was properly prepared and reviewed for errors and misclassifications. Failure to submit an accurate AFR could delay the compilation and issuance of the state's CAFR and LAFA's audited financial statements. Furthermore, misstatements from errors or fraud may occur and remain undetected.

Management should ensure that its AFR is properly prepared and should review the financial information in its AFR to identify and correct errors before submitting it to OSRAP and LLA. Management concurred with the finding and recommendations and outlined a plan of corrective action (see Appendix A, page 1).

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Louisiana Agricultural Finance Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed the following instance of noncompliance that is required to be reported under *Government Auditing Standards*.

Bond Proceeds Loaned

During the fiscal year 2008, LAFA loaned bond proceeds which may be in violation of the related bond indenture covenants. On July 30, 2007, the former Commissioner of Agriculture and Forestry directed LAFA to loan $1,048,731 of its Series 2007 bond proceeds to the H&J Receivership (receivership) to purchase 4,142 bales of cotton. According to the LAFA Series 2007 bond indenture, the bond proceeds, totaling $6,000,000, were restricted to financing only (1) renovations to office space at the Louisiana Department of Agriculture (LDAF) headquarters in Baton Rouge, Louisiana; (2) acquisition of new forestry firefighting equipment for LDAF; (3) acquisition, construction, and equipping of buildings and related facilities for use by LDAF at locations across Louisiana; (4) acquisition and installation of emergency generators for buildings and related facilities used by LDAF; (5) payment of expenses related to the foregoing; and (6) paying bond issuance costs. However, LAFA certified to the bond trustee that the bond proceeds loaned to the receivership to purchase the cotton bales had been spent in accordance with the above bond indenture covenants.

Although the receivership subsequently sold the 4,142 bales of cotton and repaid LAFA, the loan of bond proceeds may result in LAFA's default on the bonds. Section 10.1(c) of the bond indenture includes a failure to observe any bond covenants, agreements, or conditions in the indenture as a default, and Section 10.2 gives the trustee the right to declare the principal of all bonds totaling $5,700,000 plus accrued interest outstanding at June 30, 2008, immediately due and payable.

LAFA should establish controls to ensure that all bond proceeds are used in accordance with the related bond indenture covenants. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 2).

Undersecured Bank Deposits

LAFA did not ensure that adequate securities were pledged for deposits as required by state law. R.S. 49:321(C) provides, in part, that state depositing authorities shall require security for deposits, and the market value of the securities, together with government deposit insurance (FDIC), shall be equal to 100% of the amount on deposit.

Our test of securities pledged for LAFA's deposits disclosed that deposits ranging from $216,240 to $10,633,546 remained unsecured for 56 consecutive days from October 26, 2007, through December 20, 2007, because management did not adequately monitor those balances to ensure they were properly secured. Undersecured deposits increase the risk of loss of public funds in the event of a bank failure and subjects LAFA to noncompliance with state law.

Management should implement procedures to properly monitor bank accounts to ensure those deposits are secured by sufficient collateral as required by law. Management concurred with the finding and recommendation and outlined a plan of corrective action (see Appendix A, page 3).

Overdraw of Federal Funds

LAFA, through the LDAF, overdrew $59,430 of Homeland Security Grant Program (CFDA 97.067) funds by not properly adjusting a reimbursement request for applicable credits. Office of Management and Budget Circular A-87, *Cost Principles for State and Local Governments*, states that to be allowable for reimbursement under federal awards, costs must be net of all applicable credits, which include purchase discounts, rebates or allowances, recoveries and adjustments of overpayments or erroneous charges.

During fiscal year 2008, LAFA, through LDAF, requested and received a reimbursement from the Homeland Security Grant Program totaling $112,380 for rental costs of a generator used to supply electricity to the Lacassine Syrup Mill (the mill) after Hurricane Rita. The Lake Charles Cane-Lacassine Mill, LLC (LLC), which leased and subsequently purchased the mill from LAFA, reimbursed LAFA $59,430 for rental of the generator. However, LAFA and LDAF did not adjust the reimbursement request to the Homeland Security Grant Program for LLC's reimbursement to LAFA, resulting in overdrawn federal funds totaling $59,430, which we consider to be questioned costs.

LAFA management should repay the Homeland Security Grant Program for the amount overdrawn and should establish controls to ensure that future requests for reimbursements under federal programs are adjusted for all applicable credits. Management concurred with the finding and recommendations and outlined a plan of corrective action (see Appendix A, page 4).

LAFA's responses to the findings identified previously are attached in Appendix A. We did not audit the authority's responses, and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of LAFA and its management, others within the entity, and the Louisiana Legislature and is not intended to be, and should not be, used by anyone other than those specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,

Steve J. Theriot, CPA
Legislative Auditor

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LAFA08

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Management's Corrective Action Plans and Responses to the Findings and Recommendations

LOUISIANA DEPARTMENT OF AGRICULTURE & FORESTRY
MIKE STRAIN DVM
COMMISSIONER

February 25, 2009

Mr. Steve J. Theriot, CPA
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Dear Mr. Theriot:

Re: Inaccurate and Incomplete Annual Fiscal Report

The Louisiana Agricultural Finance Authority (LAFA) is in receipt of the reportable audit finding pursuant to your letter dated December 22, 2008. The authority concurs with the finding that the LAFA did not submit an accurate and complete Annual Fiscal Report to the Division of Administration for the fiscal year ended June 30, 2008. Further, the authority offers the following corrective action.

The authority will review current procedures and take action to ensure that the Annual Fiscal Report will be properly prepared to eliminate errors and misclassifications.

The authority will review fiscal control processes and take the necessary steps to strengthen internal fiscal review of its financial statements.

Sincerely,

Craig Gannuch
Assistant Commissioner for
Management and Finance

Post Office Box 631, 5825 Florida Blvd., Baton Rouge, Louisiana 70821-0631 Telephone: (225) 922-1234 Fax: (225) 922-1253 www.dlaf.state.la.us

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Dear Mr. Theriot:

Re: Bond Proceeds Loaned

The Louisiana Agricultural Finance Authority (LAFA) is in receipt of the reportable audit finding pursuant to your letter dated January 13, 2009.

The authority concurs with the finding that it inappropriately loaned bond proceeds to purchase bales of cotton. This action occurred prior to the current administration.

The authority has implemented new procedures for spending that are currently in use. The LAFA director approves all LAFA disbursements, and is well versed on how the bond proceeds may be spent.

Sincerely,

Craig Gannuch
Assistant Commissioner for
Management and Finance

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Mr. Steve J. Theriot, CPA
Office of the Legislative Auditor
Post Office Box 94397
Baton Rouge, LA 70804

Dear Mr. Theriot:

Re: Undersecured Bank Deposits

The Louisiana Agricultural Finance Authority (LAFA) is in receipt of the reportable audit finding pursuant to your letter dated December 22, 2008.

The authority concurs with the finding that it did not ensure that adequate securities were pledged for deposits as required by state law.

The fiscal director for the Louisiana Department of Agriculture and Forestry will monitor all bank accounts and the securities pledged. Further, the LAFA director will inform the fiscal director when the authority is planning to draw down any bond money. The fiscal director will, in turn, notify the bank that additional securities need to be pledged to the authority's account.

Sincerely,

Craig Gannuch
Assistant Commissioner for
Management and Finance

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Mr. Steve J. Theriot, CPA
Office of the Legislative Auditor
Post Office Box 94397
Baton Rouge, LA 70804

Dear Mr. Theriot:

Re: Overdraw of Federal Funds

The Louisiana Agricultural Finance Authority is in receipt of the reportable audit finding pursuant to your letter dated January 13, 2009.

The authority concurs with the finding that the authority, through the Louisiana Department of Agriculture and Forestry, overdrew $59,430 of the Homeland Security Grant Program (CFDA 97.067).

The following corrective action is offered:

- The authority will repay the Homeland Security Grant Program for the amount overdrawn.
- The authority and the department will review current procedures and take action to ensure that future requests for reimbursements under federal programs are adjusted for all applicable credits.

Sincerely,

Craig Gannuch
Assistant Commissioner for
Management and Finance